



Marin General Hospital

A Sutter Health Affiliate

July 27, 2009

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The Honorable Jared Huffman
Assemblymember, 6th District
P.O. Box 942849
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On behalf of the Marin General Hospital Board of Directors, thank you for your letter of July 17 concerning Marin General's participation in the Equity Cash Transfer Policy of Sutter Health.

Marin General Hospital (MGH) is proud of and has been well-served by its affiliation with Sutter Health. Being part of Sutter Health has not only bolstered MGH during challenging times, it has also helped our hospital grow, improve and prosper. Since affiliating with Sutter Health, MGH has added a breadth of outstanding new health care programs and services and facilities for the communities we serve. I am enclosing a partial list for your review.

As you know, MGH will be returned to the Marin Healthcare District in June 2010. A court-sanctioned Settlement Agreement that was negotiated by the parties and approved by the Marin Healthcare District, Marin General Hospital and Sutter Health spells out in detail all financial commitments to MGH and the District as it pertains to the transition of the hospital to the District. The agreement, a copy of which is enclosed, specifies the entirety of what will be paid to all parties.

Sutter Health will be returning to the District a debt-free, high-quality hospital whose value has been substantially increased, and will be doing so at a date well in advance of the original 2015 lease expiration, along with millions of dollars in cash, accounts receivable and other assets, all in strict accordance with the precise terms of the Settlement Agreement.

Until June 2010, MGH will continue to derive the benefits that being part of a large integrated system offers (supply and equipment purchasing, economies of scale, best practice sharing, administrative services, and the safety net afforded by our shared equity approach). As such, MGH will continue to be operated in accordance with the settlement agreement and the policies of Sutter Health.

The Equity Cash Transfer Policy is a part of Sutter Health's capital finance strategy, which is based on the concept of an Obligated Group. The Obligated Group is a contractual relationship among Sutter Health affiliates that provides for a "joint and several" guarantee of liabilities. Sutter Health believes strongly that all affiliates (with the exception of philanthropic foundations) should be bound together in one common balance sheet working cooperatively to provide services in all the various communities served by Sutter Health.

Integral to the Obligated Group is the Equity Cash Transfer Policy, which links the inherent risk of jointly and severally guaranteeing liabilities with the ability to coordinate and concentrate the allocation of capital resources to mitigate the inherent business risks of the individual members of the Obligated Group. The design of an organization's capital structure determines its access to capital, financial strength and cost of capital. The purpose of the Equity Cash Transfer Policy is to enable Sutter Health to optimize the strategic value of available capital resources for the benefit of all the communities we serve as well as the system and the individual affiliated entities.

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In Sutter Health, like so many other organizations, each affiliate retains enough cash on hand to meet expenses. Those funds are used to cover salaries, benefits, supplies and other expenses. This assures that our affiliates can manage operations with no disruption in service. If affiliates have additional cash on hand after expenses – and there is certainly no guarantee of that in today's challenging environment – that additional cash is pooled with all other affiliates in a central account at Sutter Health. When we pool cash, it is called "Equity Transfer." Funds received from donors are excluded from equity transfers and stay dedicated to the affiliate. This is exactly why we have already transferred the MGH Philanthropic Foundation to the District as specified in the Settlement Agreement.

Sutter Health operates much like a family that supports each other in good times and bad. In good times, affiliates share a portion of their revenue in excess of expenses in order to help strengthen the network. In times of need, affiliates can count on the network to help ensure that their services continue to be available to the local communities.

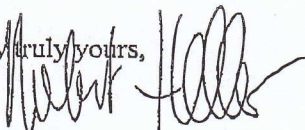
Without this safety net, some Sutter affiliates would not have been able to maintain their services in lean times or to access much-needed capital. Others would not have been able to remain open at all, thereby leaving their communities without needed hospital services.

The California Attorney General reviewed the Equity Cash Transfer Policy in connection with its formal review of Sutter Health's affiliation with St. Luke's Hospital in San Francisco, consented to the proposed affiliation and registered no objection to the policy. Similarly, in accordance with Internal Revenue Service reporting provisions, equity transfers are disclosed on the Form 990 Information Return. The Internal Revenue Service has reviewed the Equity Cash Transfer Policy in connection with its audit activities, and likewise had no objection to the policy.

Please know the MGH Board and leadership share your belief that a financially strong Marin General Hospital is vital to our community. We remain committed to meeting the detailed financial and other commitments set forth in the Settlement Agreement with the District.

Please feel free to contact me if you have additional questions.

Very truly yours,



Robert Heller
Chair, Marin General Hospital Board of Directors

Cc: Marin General Hospital Board of Directors
The Honorable Jerry Brown, Attorney General
The Honorable Darrell Steinberg, President Pro Tem, State Senate
The Honorable Karen Bass, Speaker, State Assembly
The Honorable Ellen Corbett, Chair, Senate Judiciary Committee
The Honorable Mike Feuer, Chair, Assembly Judiciary Committee
The Honorable Elaine Alquist, Chair, Senate Health Committee
The Honorable Dave Jones, Chair, Assembly Health Committee